

*Audit: a Strategic  
Management Tool*  
CFO survey





# Introduction

Dear Sir or Madam,

In the time of turbulence we are now experiencing, companies need to make sure that the financial information they are providing is: first of all – reliable and clear, secondly – comprehensive, and finally – provided right in time, i.e. fast. Only then is it really valuable for the stakeholders who use it to make decisions.

The role of a CFO in the time of crisis is thus crucial for credibility and reputation of the company. Steps taken by a CFO may also have a fundamental role in gaining a position which will allow the organization to overcome the effects of the crisis and improve the results. However, this is not the end. When the weak points of the company's control systems become clearly visible, the CFO may even become the leader in the transformation process.

An effective means to be used by a CFO to fight against the effects of the crisis and to improve the efficiency of management is a financial audit and cooperation with a certified auditor. In order to check whether companies operating in Poland are using the tool effectively, we carried out a survey among 129 CFOs. It turned out that an audit is an exhaustive source of information about the condition of the company and creates opportunities to improve financial and business processes, however, it is still ineffectively used by CFOs.

I hope that audit conclusions and recommendations included in this report will make audit in your companies a value-adding tool.

Sincerely yours,



**Gavin Flook**  
Partner in Charge in Audit  
Deloitte



# I. A CFO in difficult times: a strategist and a partner

The present crisis has clearly confirmed the thesis that nowadays the management boards of companies need CFOs who will be their partners. The role of CFOs, both in international corporations and in large Polish companies, has for several years been moving towards strategic consulting, however, the new challenges facing CFOs are particularly topical today – in the time of uncertainty and limited confidence. Because of the crisis some companies will need to repair their tarnished reputation and regain credibility not only among investors, but also among all their stakeholders. For other companies, the crisis means the need to prepare and take decisive action to restructure the company. For others the economic slowdown and weakened competition is a great opportunity for development, e.g. by acquisitions. Each of the above situations is an opportunity for a CFO to play a key role as a skilful manager of the company's finance, one who protects the company's value and initiates changes to bring improvements and strategies corresponding to the new situation.

In order to face up to the challenges, a CFO not only has to show their effectiveness in the time of crisis, but also to identify the opportunities to improve performance and generate growth in various scenarios of market revival and manage risk effectively. Difficult times are a great opportunity to “clear” the balance sheet of contingent assets. A conservative approach to financial reporting, e.g. applying revaluation write-downs and thus reducing the value of assets at the time when the market tolerates a drop in results may lead to better results in the future. Fast, reliable and comprehensive information about the financial results improves the company's credibility, much sought after during downturn. Just as identification of all new threats and development of proper strategies of hedging against specific risks, well planned, moderate investment and enhanced control systems. Thus the crisis means not only challenges, but also new opportunities. To seize them, CFOs may be helped by an audit and cooperation with the auditor.

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## II. Audit: necessary, but underestimated

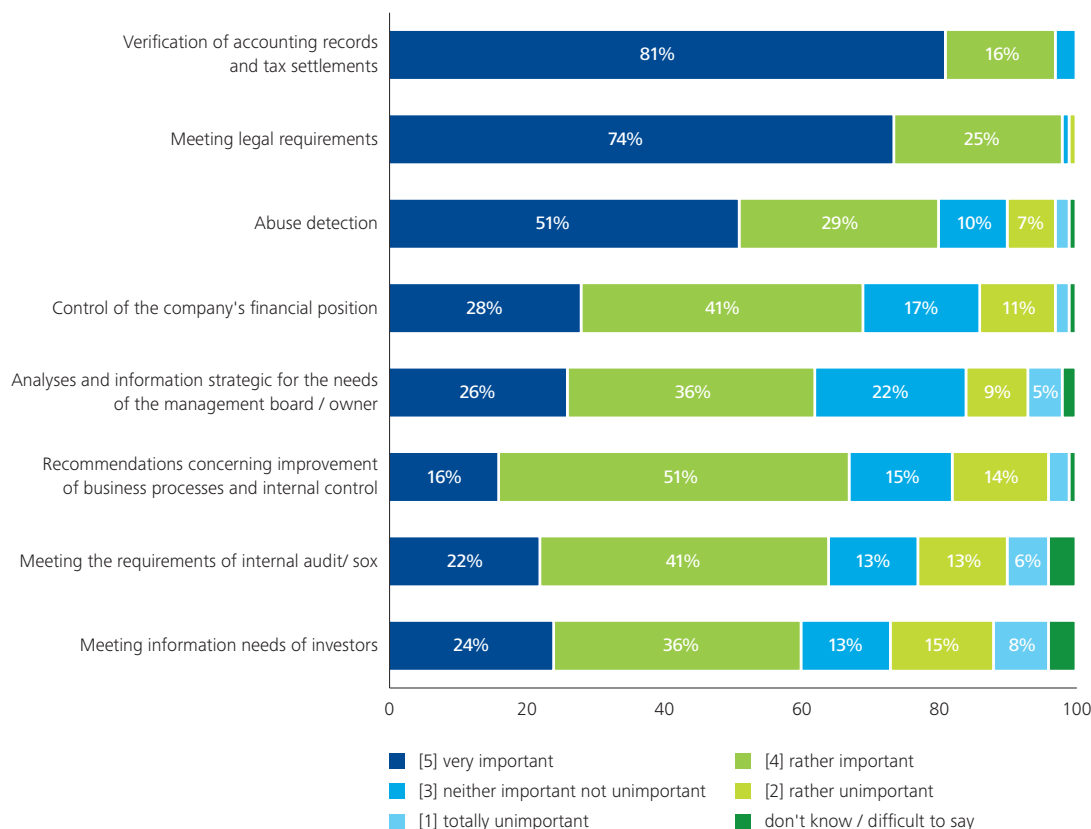
CFOs who use the results of an audit and cooperate with an auditor in the right way, may initiate actions in many areas of the company. An auditor's opinion on the audit of the financial statements provides valuable information for the company and its stakeholders. It allows for verification of the correctness and accuracy of the financial statements and the fairness of disclosed information. However, audit is also a valuable source of information on the company's conditions and a useful tool when rectifying measures need to be taken. Companies which fail to notice extra benefits that derive from a reliable audit do not take the opportunity to increase their value.

Nevertheless, a survey among CFOs of the largest Polish companies confirmed the popular opinion that the majority of companies decide to carry out an audit because it is a legal requirement, and not as a result of a conscious decision to get an effective tool for better management

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of the company, improve the company's operations and increase its value. When asked to name the most important advantages of financial audits, CFOs identified "verification of accounting records and tax settlements" and "meeting legal requirements". "Analyses and information strategic for the management board/owner" or "recommendations concerning improvement of business processes and internal control", so significant from the perspective of persons creating the company's value, were ranked lower.

### How important for your company are the following results of financial audits?



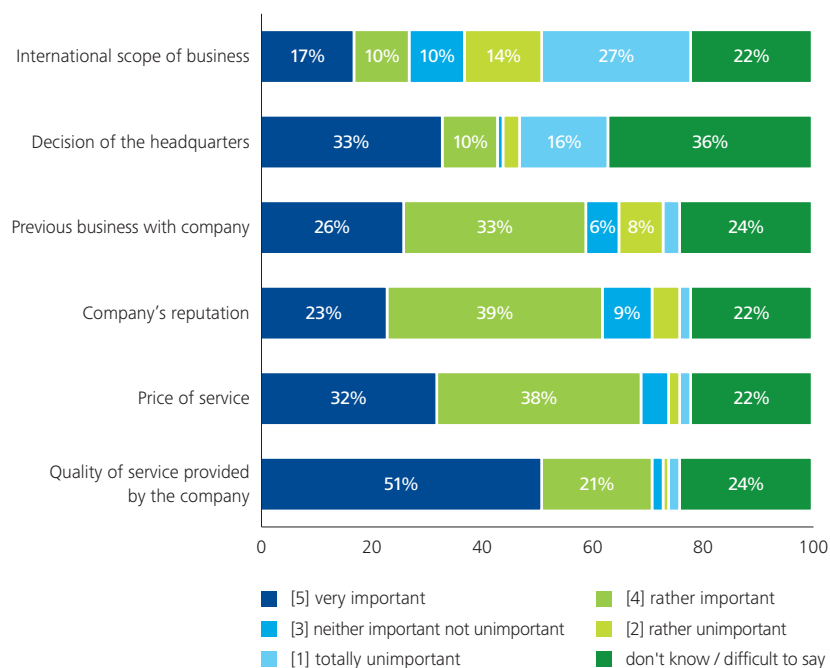
Such an approach to an audit make companies fail to notice how valuable it is and fully use its results. This happens despite the fact that – as shown in the survey – selection of an auditor is careful and deliberate with the quality of service as the decisive factor. This is shown in the survey as almost three quarters (72%) of the surveyed CFOs identified the quality of service as the most important factor. For over half (51%) the criterion was “very important” and for one in five (21%) “important”. Naturally, “the quality of service” is a broad notion, however, it is worth noticing that the three most important selection factors include also: “price of service” and “company’s reputation”.

It is good to remember that the way an auditor is selected depends greatly on the culture of a given organization. The survey has shown that companies with headquarters abroad generally do not make the decision on auditor selection. From among the 28 surveyed organizations with the headquarters outside Poland, 16 declared that this is where the decision on

auditor selection is very important. Practice proves that Polish branches usually act only as advisors during the process.

If the most important factor during selection of an auditing company is the quality of service, it is obvious that in time of limited confidence in financial information, i.e. with less tolerance for errors, the quality of audit is of crucial importance for CFOs. This means that companies need reliable advisors and high quality audit which will guarantee and confirm the stability of their finance and correctness of processes. Nevertheless, they tend to forget that besides that guarantee an audit brings added value – it may be considered an effective management tool, which is precisely why it is so important for the company. Especially, if we notice that only one in three surveyed CFOs said that the management in their company has enough information necessary during the managing process.

**Which criteria were important for you when selecting the company providing you with audit advisory services?**



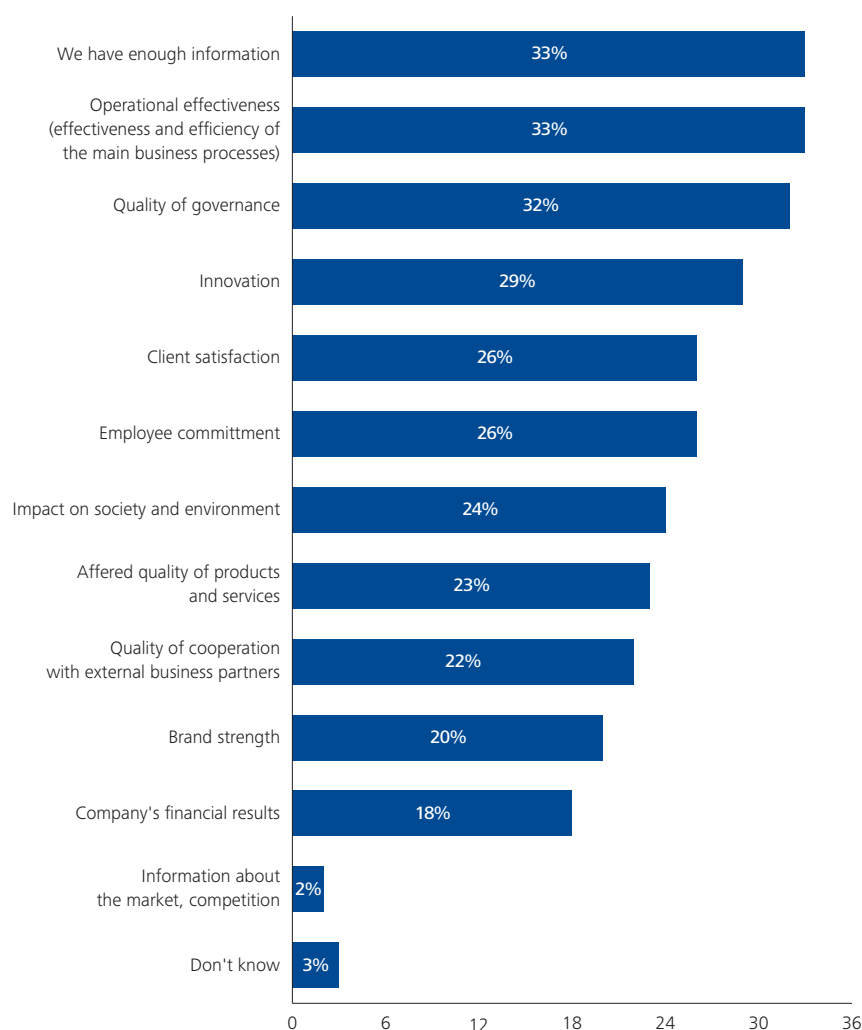
# III. To know more is to know better

The areas in which management boards need more information than they have now are: operational effectiveness (effectiveness and efficiency of the main business processes) and the quality of governance. These areas have been pointed by almost the same number of surveyed CFOs – 33% and 32%, respectively.

An audit carried out by a certified auditor may be an excellent source of information for the company's management and a CFOs, among others, thanks to cooperation with the auditor, may act as a strategic advisor to the management board with reliable information on the financial position and operational processes of the company.

**Are there any areas in your company in the case of which the company's management need more information than they receive presently?**

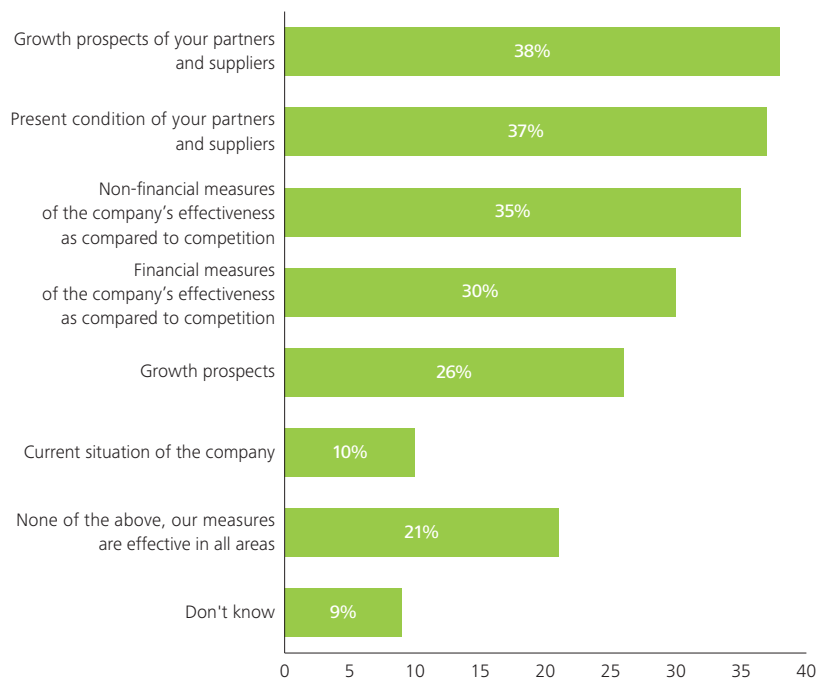
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It is, however, worth mentioning that only one in ten respondents was dissatisfied with their knowledge about the internal situation of the organization, considering the factors that describe it as effective and providing reliable and important information for

the management board and managers. The demand for information refers mainly to the external elements of the company – the present condition of business partners and suppliers and their growth prospects as well as the condition of the competition.

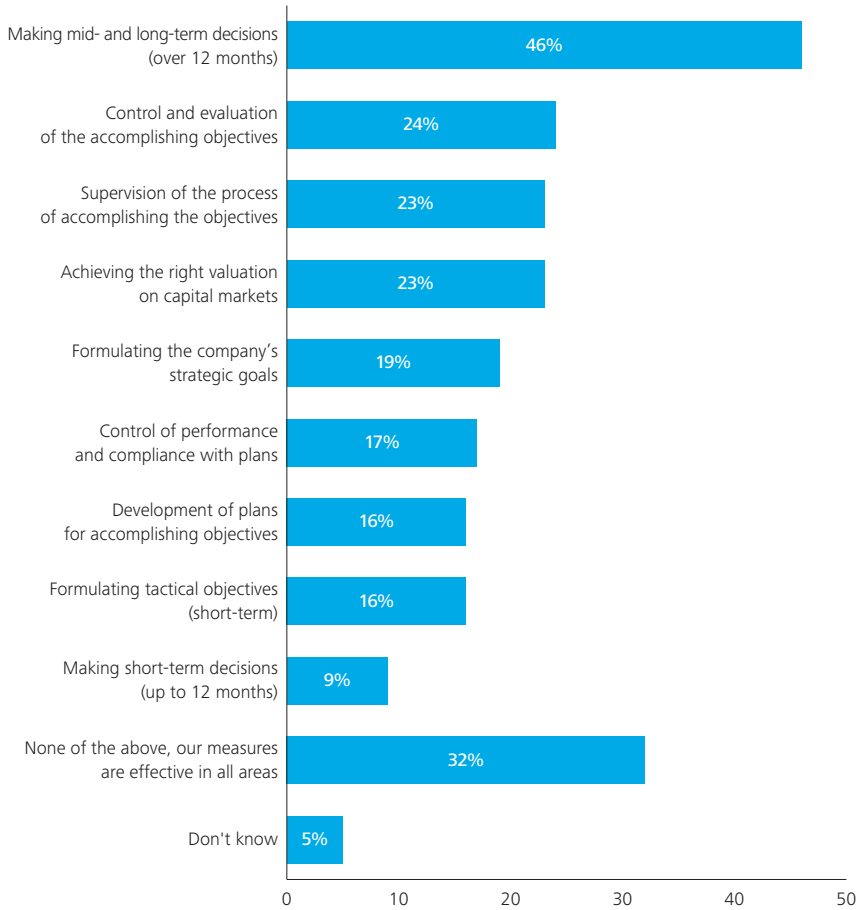
**Are the indicators that are available for you, in any of the given areas, ineffective and need to be changes so that they provide the management board and the managers with reliable and important information?**



The survey also showed that CFOs are aware of the fact that better quality of the financial measures and ratios may be of a great help for the management in making strategic decisions, mainly mid- and long-term ones. This has been the opinion of almost half of the surveyed CFOs (46%). Almost one fourth (24%)

admitted that well used financial ratios may improve the control and evaluation of the objective accomplishing processes. With more effort from the entire organization, this may be precisely what the results of financial audits are used for.

**Do you think that the management of the company may be at any point of formulating and accomplishing business objectives limited by the poor quality of financial measures and ratios? Please, select the objectives in the case of which the present financial measures are ineffective.**



# IV. Who uses audit data?

Only 6 survey participants said that in their company there is a person who would wish to know the results of the report, but who is denied access. These persons include divisional directors and line managers. Does this mean that in a vast majority of cases audit data reach all the company's stakeholders who could find it useful? And thus, on the one hand, to those interested in the financial position of the audited company or capital group, its profitability and effectiveness (owners, financing entities, existing and potential business partners, company's employees and management), and on the other, to persons and bodies responsible for growth of the company's value?

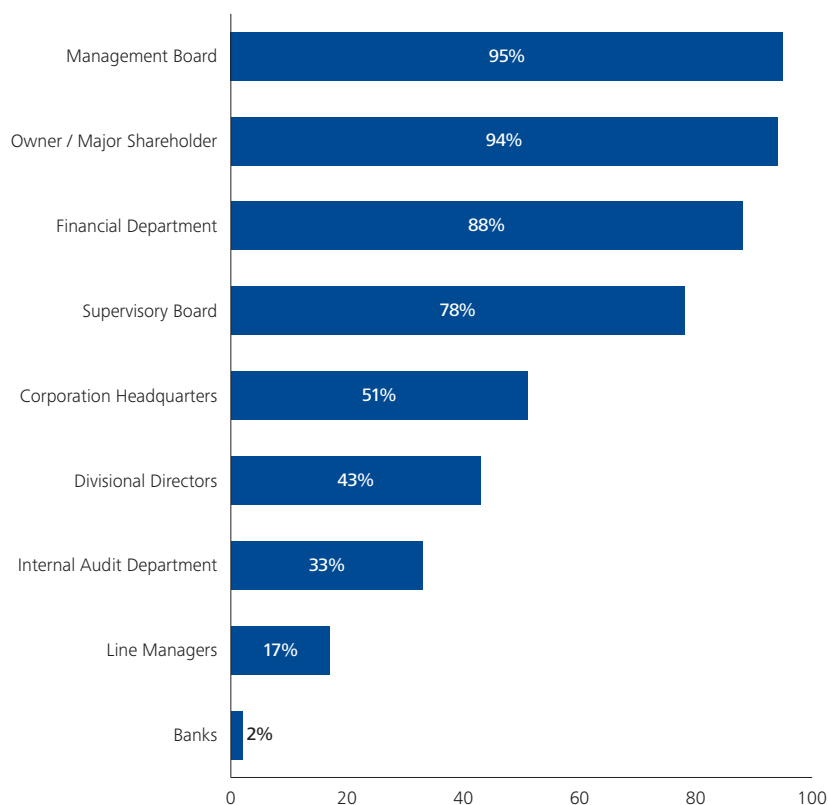
One may have doubts when analyzing the results of the CFO survey. It shows that the data from financial audits are not used to the maximum extent. They are mainly used by management boards and financial departments.

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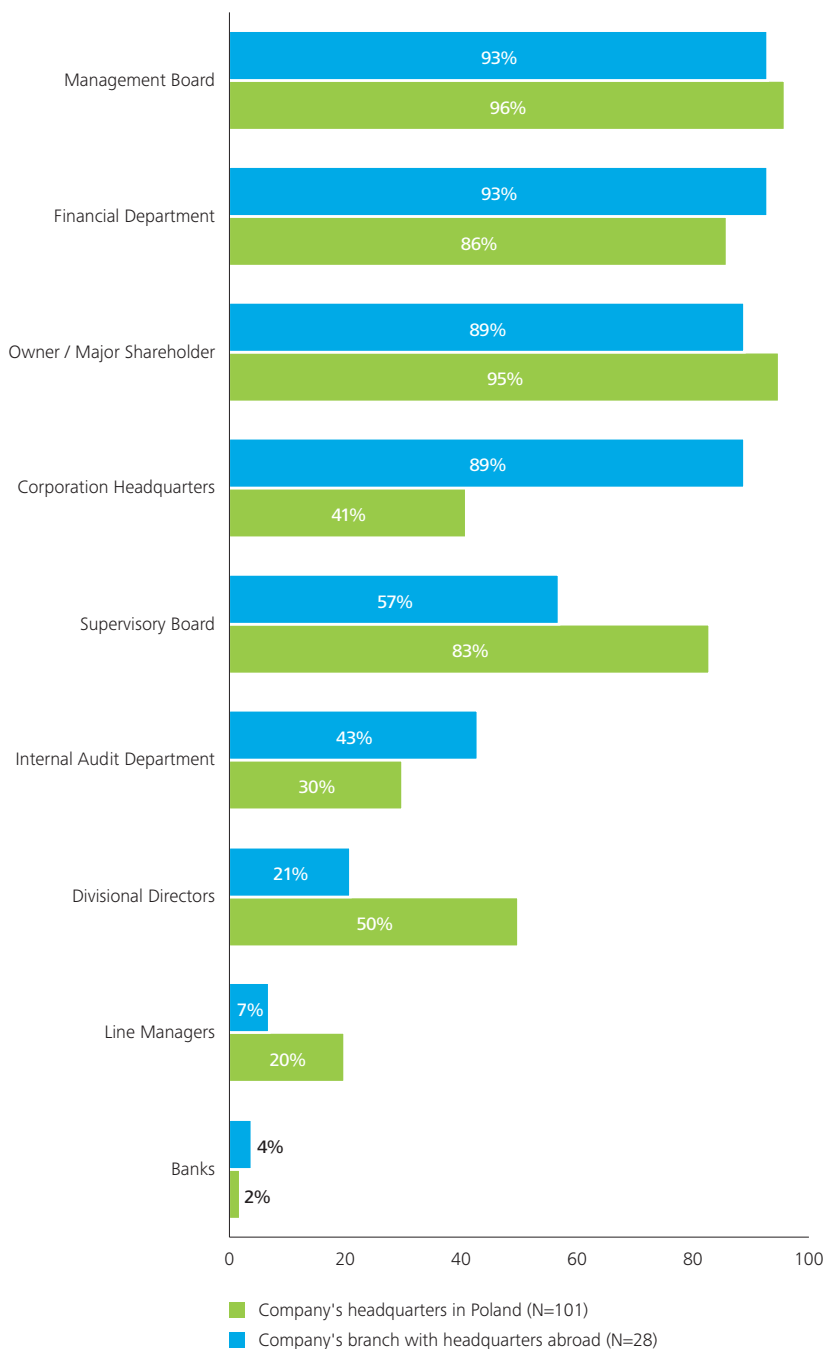
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Surprisingly, 12% of those surveyed admitted that the reports and information prepared as part of financial audits are not used by owners/major shareholders who, thanks to verified financial statements, are able to gain most comprehensive information on the financial condition of the audited company. Even fewer surveyed CFOs sees effective use of the audit data in the corporation headquarters and only half by supervisory boards. The results of an audit are relatively rarely passed on to divisional directors and even more rarely to line managers.

**Who in your company uses the reports and information prepared as part of financial audits?**



Interestingly, companies with headquarters abroad are much less likely to pass on the results of the audit to those on a lower-level of management than companies which operate in Poland independently.



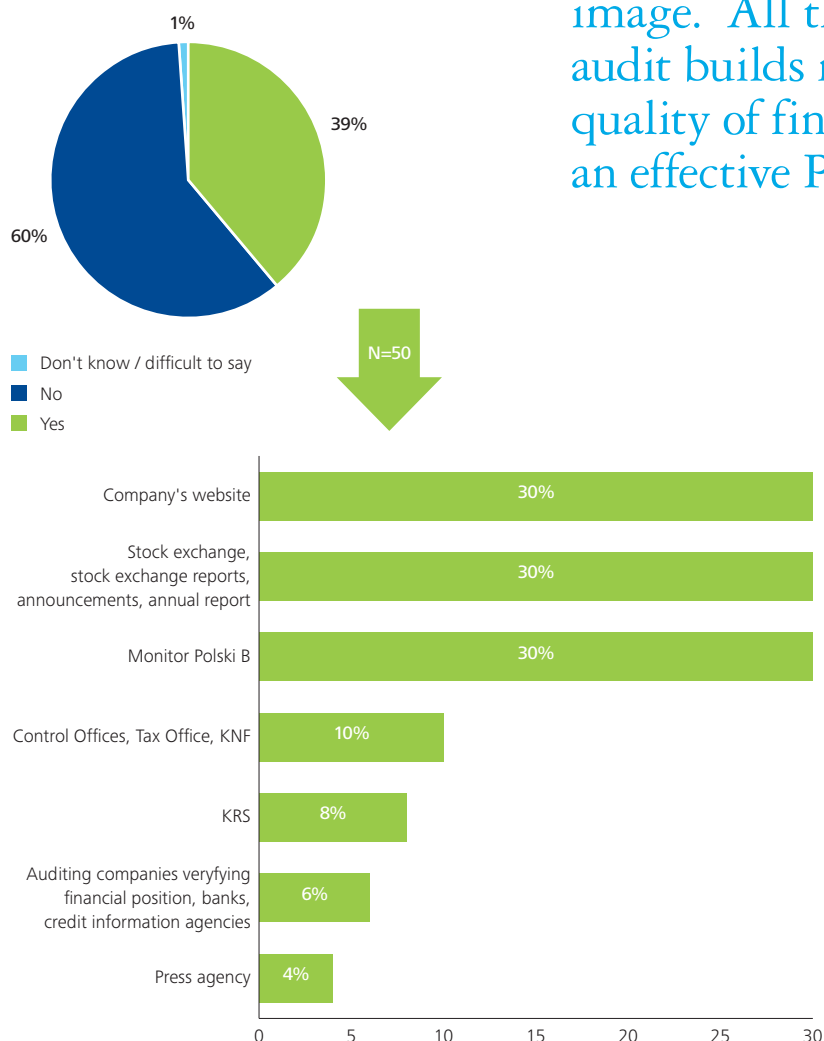
# V. Publishing audit results: missed component of company image building

Although the majority of CFOs appreciates the role of an audit (73% responded that the report and conclusions derived from the financial audit are a source of important information for the shareholders), providing wider access to its results is not common. Only 39% of those surveyed stated that audit data had been published elsewhere than in Monitor Sądowy i Gospodarczy. One third (30%) of those companies used the company's websites, one third the stock exchange, stock exchange reports or announcements or an annual report and one third Monitor Polski B.

These data show that for a significant number of companies good financial results or positive opinions about the current activities were not used to build the company's image. All this when good quality of an audit builds market confidence and high quality of financial statements may be an effective PR tool.

For a significant number of companies good financial results or positive opinions about the current activities were not used to build the company's image. All this when good quality of an audit builds market confidence and high quality of financial statements may be an effective PR tool.

**Do you publish your financial statements elsewhere than in Monitor Sądowy i Gospodarczy?**  
If YES – please, specify where.



# VI. Missed opportunities – survey conclusions and recommendations

An analysis of the survey results shows that some CFOs fail to understand the point of an audit and the opportunities which it offers in the process of creating the company's value. Considering an audit as a statutory obligation, CFOs often do not perceive it as a valuable source of information about the company's condition and available rectifying measures. It is worth remembering that an independent auditor, objective and impartial, has a unique opportunity to combine the knowledge of factors, types of risks and other processes typical for a given industry with the problems of an individual company identified during an audit. That is why an auditor can perform an in-depth analysis of the company's situation and provide valuable guidelines regarding rectifying measures. This enables the Management Boards to:

- improve the quality of financial reporting;
- point out shortcomings of the internal control systems;
- detect risks facing the company more easily and in time;
- manage risk more effectively;
- use the auditor's guidelines concerning rectifying measures (e.g. enhance prevention in terms of more effective detection of abuse or stealing, enhance business processes and internal control, improve the quality, clarity, reliability and comparability of the entire financial statements and specific information that is disclosed, react to the actions of regulatory bodies more accurately).

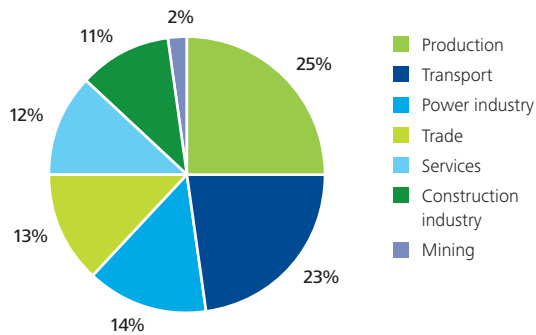
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The crisis is a good opportunity to look closely at the company's control systems, identify all shortcomings and eliminate them. Here, auditor's letters to the management board may prove useful. During difficult times the management board and employees may be more motivated to change things than during prosperity. It is also easier to change the mentality of the management and staff. Appointing the CFO transformation leader may encourage members of the management board to read the financial data (which will facilitate professional exchange of information with markets) and other departments to cooperate with the financial and accounting division (which may contribute to achieving the strategic goals of the organization). This may also significantly improve the quality of internal communication throughout the company and knowledge transfer, both within and to the organization.

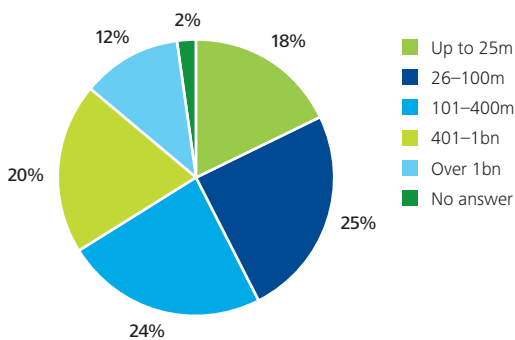
# VII. Methodology

**Industry structure**

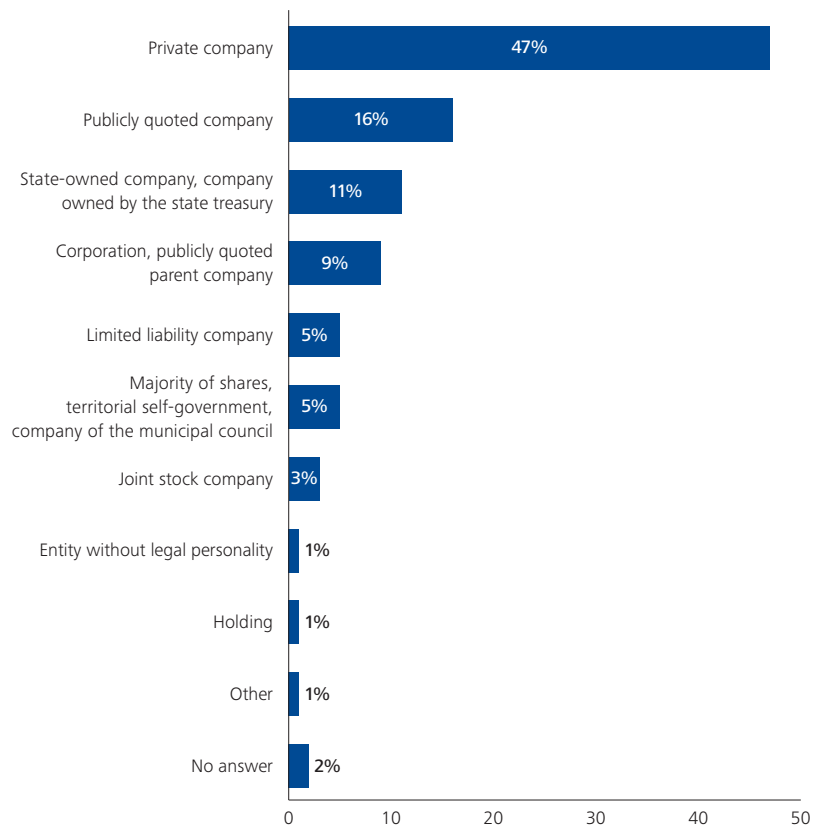


“CFO survey in the face of the present condition of the financial markets” was carried out by Pentor Research International in February and March 2009. It covered 129 CFOs in companies which use auditor services. Companies were selected from the organizations listed in the “Lista 500” by Rzeczpospolita and from companies in the HBI database which declared employment of 250 persons and more. The survey was conducted using the CATI method. 129 interviews were conducted – 102 in companies with 250 employees and more and 27 in companies with employment between 100–249 persons.

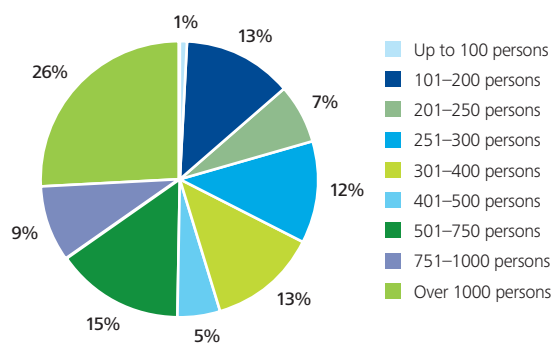
**Structure according to the volume of revenues**



**Ownership structure**



**Structure according to the number of employees**



# Contact

## **Gavin Flook**

Partner in Charge  
Audit Department  
gflook@deloitteCE.com

## **Warsaw office**

ul. Jana Pawła II 19  
00-854 Warszawa  
Phone: (0-22) 511-08-11  
Fax: (0-22) 511-08-13

## **Katowice office**

**Artur Maziarka**  
amaziarka@deloittece.com  
Deloitte  
ul. Uniwersytecka 13  
40-007 Katowice  
Phone: (0-32) 603-03-30  
Fax: (0-32) 603-03-31

## **Kraków office**

**Marek Turczyński**  
mturczynski@deloittece.com  
Deloitte  
Al. Armii Krajowej 16  
30-150 Kraków  
Phone: (0-12) 622-43-40  
Fax: (0-12) 622-43-43

## **Wrocław office**

**Grzegorz Warzocha**  
gwarzocha@deloittece.com  
Deloitte  
Rynek 7  
50-106 Wrocław  
Phone: (0-71) 344-71-20  
Fax: (0-71) 344-71-25

## **Gdańsk office**

**Wacław Nitka**  
wnitka@deloittece.com  
Deloitte  
ul. Arkońska 6  
80-387 Gdańsk  
Phone: (0-58) 761-67-70  
Fax: (0-58) 761-67-61

## **Poznań office**

**Jacek Mateja**  
jmateja@deloittece.com  
Deloitte  
ul. Marcelińska 90  
60-324 Poznań  
Phone: (0-61) 860-21-00  
Fax: (0-61) 860-21-01

## **Łódź office**

**Maria Nowicka**  
mnowicka@deloittece.com  
Deloitte  
ul. Traugutta 25  
90-113 Łódź  
Phone: (0-42) 290-60-00  
Fax: (0-42) 290-60-01

## **Szczecin office**

**Jacek Mateja**  
jmateja@deloittece.com  
Deloitte  
ul. Plac Rodła 8 XII piętro  
70-419 Szczecin  
Phone: (0-91) 359 40 65  
Fax: (0-91) 359 40 66

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